



Toledo  
Community  
Foundation

Inspiring and Connecting Thoughtful Giving

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### About Your Foundation

Since 1973, **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

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## Tax Tips for This Year and Next

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While quite a bit of ink has been spilled about the estate and generation skipping transfer (GST) opportunities of the new Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, attention will now shift to the two-year extension of many expiring tax breaks.

Financial advisors are already focused on those tax breaks that directly impact their clients' personal, financial and investment planning. These tax-aware advisors are preparing to counsel investors on everything, from the short-term nature of the tax breaks, to maximizing cash flows and retirement plan distribution planning.

Investors have important decisions to make about their short- and long-term plans. Their challenge is to efficiently obtain the necessary information. By combining unbiased guidance with expertise in the new law, professional advisors can facilitate investor planning decisions. They have already identified several investor-oriented changes in the new law.

\* Federal individual tax rates extended. The 2010 federal individual tax rates were extended through Dec. 31, 2012. Individual income tax rates remain 10%, 25%, 28%, 33% and 35%. Long-term capital gains and qualified dividends are tax-free for those subject to the 10% and 15% income tax rates. All others are subject to a 15% rate. A special 28% rate still applies to collectibles, such as antiques and works of art.

\* Itemized deduction limitation remains repealed. In prior years, most itemized deductions were reduced by 3% of excess MAGI (modified excess gross income) over the applicable threshold (\$166,800 for 2009) but by no more than 80% of itemized deductions. Absent for 2010, the overall limitation on itemized deductions-the "Pease limitation"-remains repealed for 2011 and 2012.

\* "Marriage Penalty" continued. Through 2012, married taxpayers filing joint returns will continue to enjoy a standard deduction, and a 15% income tax rate bracket top. That's twice as much as single filers (\$11,400 compared to \$5,700 for the standard deduction, and \$68,000 compared to \$34,000 for the 15% bracket top).

\* Alternative minimum tax relief. The higher 28% alternative minimum tax (AMT) rate applies to AMT income in excess of \$175,000. The AMT exemption amounts for 2011 have been raised to \$48,450 or \$74,450, depending on whether it's a single filer or a married couple. Unfortunately, Congress did not choose to extend or index this exemption for future years yet.

\* Coverdell education savings account enhancements maintained. Several temporary enhancements to Coverdell education savings accounts have been retained through Dec. 31, 2012. These include the higher contribution limit of \$2,000 (previously \$500), and the higher married-filing-jointly phaseout range of \$190,000 to \$220,000 (previously \$150,000-\$160,000). The increased limit can be a significant benefit for the many families whose education accumulations are a little behind.

\* IRA charitable distributions remain tax-free. IRA owners over age 70 1/2 may direct their IRA custodian or trustee to distribute up to \$100,000 directly to a qualified charity and the distribution will be entirely tax-free. Naturally, the charitable deduction would not be available for the donation to the charity.

#### What's An Advisor To Do?

Don't scramble to learn it all in the next few weeks. The extension of the reduced individual income tax rates and other breaks lessen the federal tax drag on investment performance, thereby facilitating the success of both short- and long-term plans. Pay particular attention, however, to the changes in the new law, which impact the individual investor. It will become clear that the following traditional planning applications are the name of the game for another two years.

Continue to defer income and accelerate deductions as appropriate. Coordinated income deferral and deduction acceleration planning is a technique which continues to work well in 2011 and will work well in 2012. Since there is no change in rates, the potential to push the investor into the AMT remains. Investors who fall in and out of the AMT and those hopelessly subject to the AMT may want to do the opposite.

Superior results are usually obtained by paying income taxes later rather than sooner. Short-term income deferral of Treasury bills and certificates of deposit maturing by year-end 2012 may be attractive to investors who, for example, anticipate a rise in interest rates before Jan. 1, 2013. Those seeking a longer term deferral may be more attracted to annuities, like-kind exchanges, installment sales, spousal IRAs and other deferred compensation programs, such as 401(k)s and non-qualified deferred compensation plans.

Accelerate deduction payments into an earlier tax year. Traditionally bunched deductions are state and local income taxes, property taxes, charitable donations and medical expenses. As the Pease Limitation on itemized deductions is scheduled to return full force in 2013, it makes sense for certain investors to plan early and ensure the ability to accelerate 2013 deductions into 2012 in order to maintain full deductibility. Others may want to practice tax bracket management by averaging deductions over 2011 and 2012.

The critical challenge for advisors is to help investors recognize the importance of periodic plan reviews, as the Congressional tax dance will begin anew in 2012. Here are some more specific tips:

\* Make charitable IRA distributions. Investors over age 70 1/2 who make regular annual charitable donations should consider donating from their IRA. In addition to being federal-income-tax free, the donation counts toward satisfying the required minimum distribution (RMD) for the year.

\* Boost income with Roth IRA conversions. With rates holding at the current levels for 2011 and 2012, the option of a Roth IRA conversion in these two years appears more attractive. Whether the goal is to run to the top of a bracket, or spread the tax over two years, partial conversions benefit from the lower tax rates in 2011 and 2012. Participants in 401(k) plans should explore the option of 2011 and 2012 in-plan Roth conversion with their plan administrator.

\* Grow qualified dividend income. The popular investing discipline of using qualified dividends to produce tax-advantaged cash flow should continue to be an attractive option for the next two years. Equity and mutual fund investments may be used to generate qualified dividend income.

\* Lock in the long-term capital gain rate. Considering the sale of an appreciated short-term investment? The marginal ordinary income tax rate will apply. Evaluate the risks and rewards of holding it just long enough to convert it to a long-term capital gain asset and lock in the more favorable 15% tax rate.

\* Increase education funding. Many investors have not saved adequately for their children's education. Anyone may contribute up to \$2,000 (2011 and 2012) per beneficiary-child to a Coverdell education IRA. Contributor subject to phaseout? The child may make his own Coverdell contribution. Gift \$2,000 to the child-have the child's custodian make the Coverdell contribution.

\* Withdraw employer stock instead of cash from employer-qualified plans. Qualified lump sum distributions of employer securities from qualified retirement plans are entitled to special tax treatment. The trustee's cost basis in the securities is taxed as ordinary income for the distribution year. The capital appreciation, which occurred in the plan-the net unrealized appreciation (NUA)-is not taxed until the distributed security is sold. It will then be taxed as long term capital gain.

The economics of these familiar strategies appear relatively straightforward. However, wise investors will seek professional advice to properly quantify their short-term and long-term benefits and risks.

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